

STATE OF IOWA

PUBLIC EMPLOYMENT RELATIONS BOARD

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PUBLIC EMPLOYMENT
RELATIONS BOARD

In the Matter of the Fact Finding

between

Before

CITY OF CEDAR FALLS, IOWA

Harvey A. Nathan

and

Fact Finder

CEDAR FALLS FIREFIGHTERS
ASSOCIATION LOCAL 1366

Hearing Held: February 7, 2007

For the City: Susan Bernau Staudt,
Assistant City Attorney

For the Association: Scott K. Dix,
President, Local 1366

Report and Recommendations

This is a fact finding proceeding pursuant to the impasse procedures of the Public Employment Relations Act, Chapter 20 of the Iowa Code. The City of Cedar Falls is a residential community located in north central Iowa, immediately adjacent to Waterloo. It is also the home of Northern Iowa University whose student population somewhat skews the assessment for public services. Cedar Falls had a 2000 census population of 36,145. The City has a long standing collective bargaining relationship with the Cedar Falls Firefighters Association ("Firefighters" or "Association"), as well as with Teamsters Local 238 for a unit of sworn police officers and for a combined unit of Public Works and Parks employees.

The City and the Association are completing a one year contract for the period of July, 2006 through June, 2007. The parties have reached an impasse for a successor one year contract for the fiscal year July, 2007 through June, 2008. Immediately prior to this fact finding the parties were able to resolve several issues at impasse. The remaining issue now before the Fact Finder is health insurance.

The parties use a state-wide population comparability group made up of the six cities ranking immediately above Cedar Falls and the six below Cedar Falls. With some minor changes the group has been the same for many years. It includes:

Waterloo	68,747		Bettendorf	31,275
Iowa City	62,220		Mason City	29,172
Council Bluffs	58,268	Cedar Falls	Clinton	27,772
Dubuque	57,686	36,145	Burlington	26,839
Ames	50,731		Marion	26,294
West Des Moines	46,403		Marshalltown	26,009

The issue before the fact finder pertains to an employee's share of the costs of health insurance. The two proposals before the fact finder are as follows:

<u>City</u>	<u>Association</u>
The monthly contribution rate shall increase to 4.65% of the total monthly health insurance contribution for dependent care coverage, which is a monthly employee contribution of \$57.60 per month.	No increase in family premium. City pays all premium and expenses for single coverage.

Health insurance coverage for the employees of Cedar Falls has had a long and interesting history. Prior to July 1, 1994, employees were insured through a Blue Cross/Blue Shield PPO with a 90/10 co-pay. In July, 1994, the City converted to a self-insured plan providing the same benefits and administered by Blue Cross/Blue Shield. In July, 2002, the City offered two plans, called Plan A and Plan B. Plan A was "premier" plan and was related to the existing all inclusive plan which had been offered for many years. Plan B was a lower cost plan with a change in risk distribution. In July, 2006, effective for the current contract, the parties agreed to eliminate the premier plan. The parties disagree as to the circumstances giving rise to the elimination of Plan A.¹ This current impasse is the first since the elimination of that plan.

¹ It should also be noted that prescription drug coverage changed last year as well so that many drugs became more costly. Thus, the 2006-2007 collective bargaining represented a watershed in health care coverage. Premium payments were less for everyone in the absence of a Plan A, but the costs to individual employees who used the plan were greater. In other words, the focus shifted from a dispersion of risk among the group to greater financial responsibility for individual employees who used the medical plan.

The premiums for single coverage was and remains entirely paid for by the City. However, as negotiated in the last contract, pursuant to a Section 105 plan, the City reimburses employees the first \$100 of the \$500 deductible, and \$500 of the \$1,000 to maximum out-of-pocket.

As recited in the Collective Bargaining Agreement, the history of monthly employee contributions for dependent coverage has been as follows.

Eff. 7/1/94	\$26.00	7/6/02 Plan A	\$101.48	Eff. 7/1/06	\$24.32
		Plan B	21.98	(Plan B)	
7/1/95	30.00				
		7/5/03 Plan A	\$108.09		
7/1/99	33.00	Plan B	23.42		
7/1/01	36.30	7/3/04 Plan A	\$126.47		
		Plan B	20.48		
		7/2/05 Plan A	\$154.54		
		Plan B	24.32		

As noted above, the City has a self-funded plan. It purchases insurance only as a stop loss for catastrophic claims.² The City uses Gallagher Benefit Services, Inc. for analysis of the utilization of the health plan and for recommendations for funding.³ According to the information gathered by Gallagher for the October, 2006, semi-annual meeting with the City, the total contributions for health coverage were adequate and the reserves were increasing

² The stop loss is currently set at \$85,000 for a claim. That is, insurance protects the City for claims above \$85,000.

³ Gallagher issues periodic reports and their submission as evidence in this case has been most helpful.

from year to year. Thus, Gallagher's October, 2006 report shows that income to the plan in 2004-2005 exceeded total expenses, including administrative costs by \$359,255, or 15.9%. In the 2005-2006 fiscal year, income exceeded total expenses by \$768,479, or 29.1%. The accumulated cash balance as of June 30, 2006, was \$2,775,438. According to a November, 2006 Gallagher report, during the first four months of fiscal 2006-2007, total costs were running 90.8% of monthly contributions. Thus, in the first four months of the current fiscal year the plan accumulated an additional \$78,752.⁴ The fact finder is advised that this reserve fund is invested and that the yield is segregated for the exclusive use of the insurance fund.

Nonetheless, because of anticipated increases in the costs of medical care, Gallagher estimates that costs for 2007-2008 will exceed the present contribution rate by 4.3%. According to Gallagher, total estimated costs, allowing for a claim fluctuation of 10%, would be \$2,640,300. Present funding, Gallagher estimated, would yield \$2,530,878. The difference of \$109,422 would, according to Gallagher, require a 4.3% increase in contributions.

The City's proposal is to increase a fire employee's percentage contribution so that it equals the total percentage increase in entire premium costs. In other words, the City is not proposing that a bargaining unit employee's contribution be increased by 4.3%.⁵ Rather, the

⁴ The fact finder was not supplied with copies of Gallagher's earlier reports so that he might have assessed whether Gallagher's projections for 2004-2005, 2005-2006 and 2006-2007 were unduly pessimistic which in turn might explain the surpluses the City has accumulated.

⁵ Fire employees currently pay \$24.32 per month toward the \$1,034.30 total monthly cost of family coverage. This is 2.35% of the total cost. A 4.3% increase of the just the present contribution of \$24.32 would be an additional \$1.05 a month.

City is seeking a change in the basic sharing formula. It is proposing that the 4.3% increase be of the total cost suggested by Gallagher for 2007-2008. The 4.3% would be computed against the total monthly contribution of \$1,187.38. The employees' contribution would increase 136.84%, from \$24.32 a month to \$57.60.⁶ Because of this large percentage increase in the employees' share, the City's percentage increase would only be 1.55%.

It is sometimes stated that external comparables are not a good measure of the appropriateness of a health care plan because there are so many variables in crafting a plan that every community ends up with its own unique plan. This is certainly true among the 12 cities Cedar Falls uses for comparison purposes. Nonetheless, there are certain features which most plans have in common and a comparison of these features can reveal some sense of the relative value of the plan for employees. These include the premium percentage paid by employee, deductibles, co-pay, maximum out-of-pocket and the existence of dental and/or vision coverage. Cedar Falls' standing for dependent coverage in these five categories may be shown as follows:

Premiums	Deductible	Co-Pay	Max Out-of-Pocket	Dental
Near the top. A few cities require no payment by employees.	At bottom. Cedar Falls is one of 3 cities with \$1,000 deductible.	Towards the bottom. A few cities have 90/10 as does Cedar Falls, but most have a more generous flat dollar co-pay.	Near the bottom. One city has \$3,000. Three have \$2,000, as does Cedar Falls.	Cedar Falls is one of 3 cities with no dental. 3 others have dental but employees pay part of premium.

⁶ The City does not explain how the 4.3% of the total increase was computed as an appropriate contribution level for employees. It leaves open the possibility that had the costs increased by 10% the City would have proposed that employees pay 10% of the entire premium.

This comparison shows that Cedar Falls has a comparatively costly dependent health care plan for employees who use it. While the monthly premium schedule is lower than most, the high deductible and out-of-pocket costs push the City's plan to the bottom for those employees who use the plan. When the below average co-pay and the absence of a dental plan is factored in, the plan does not compare favorably with the comparability group.⁷

An analysis in another context further diminishes the attractiveness of the City's proposal in these proceedings. As noted above, the City maintains a high cash reserve. The cash reserve at the end of June, 2006, was actually about the same as the entire cost for the plan anticipated by Gallagher for the 2007-2008 fiscal year. In other words, theoretically, if Cedar Falls did not put another penny in the plan for 2007-2008 it would still have enough money in its insurance fund to cover the anticipated cost of operating the plan for that year. While the fact finder is certainly not recommending this, he notes that for the first third of the 2006-2007 fiscal year, the City was banking almost ten cents of every dollar it and the employee participants were contributing.⁸ Seen from another perspective, the City has the second highest cash reserve among the comparables. At \$12,390 per employee it has the highest reserve per employee in the comparability group. This amount is three times the

⁷ In fairness, the plan is excellent for single coverage. The costs for single employees, even those who use the plan, are favorable. Likewise, for those employees enrolled for dependent coverage but who do not require medical care, the financial burden is minimal. And, in fact, many parties favor a distribution of costs which leans more heavily on those employees who use the benefit.

⁸ If this trend continues for the remainder of the present fiscal year, the City will be well on its way to having a second year of costs held in reserve. (See text on page 5, above, just prior to fn 4)

average reserve for the group of comparable cities.

It would appear from the examination made thus far that there is little support for the City's proposal to increase the employees' contribution for dependent medical care. There is no public interest in a governmental unit building up such a large cash reserve which it can secure if needed in the future. Most taxpayers probably do not want their governmental units acquiring and holding money as if they were banks. Likewise, external comparability lends no support for the City's proposal. Additionally, the bargaining history shows a great many changes made in the system in the past several years, and particularly in the last year. Prudent collective bargaining might suggest that the new medical plan be allowed to find its natural level before the parties start tinkering with its structure again. While this could change if there were a real need to increase the ratio of contributions by each party, there certainly is no such need at this time.⁹

The problem for the City, however, is one of internal comparability. In particular, the Police unit has agreed to the formula here being proposed for the fire employees, that is, 4.65% of the total monthly health insurance contribution for dependent care. Inasmuch as the wage increase for both public safety units has settled at 3.5%, it seems only fair to the City that both public safety units have the same economic burden for health insurance. Indeed, there are numerous impasse awards in Iowa and other jurisdictions that support the

⁹ Likewise, there is also no need to tamper with the formula for single coverage as proposed by the Union. The plan requiring a maximum deductible of \$400 and a total out-of-pocket of \$500 is a good and fair benefit.

concept of uniformity among all employees for health coverage.¹⁰ There is much support among labor relations professionals that internal competition among police and fire bargaining units can be a destructive force for good labor relations.

In this case, however, there is more to the settlements with other units of employees than merely the issue of dependent health care contributions for 2007-2008. There are three other groups of employees against which comparisons can be made: Police, Parks/Public Works, and unrepresented employees. In terms of insurance, while everyone is covered by the same health plan, employee contributions for each group are different. Thus, in 2006-2007, Police and Parks/Public Works each entered into three year agreements which locked in wages and insurance contribution rates.¹¹ The Fire Association did not agree to a three year contract and chose to take its chances for each of those three years.

In terms of wages, the two other bargaining units agreed to a three year settlement for total wage package increases of 3.25% for 06-07, 3.5% for 07-08 and 3.75% for 08-09. The Fire Association negotiated the same 3.25% wage increase for 2006-2007, and has a tentative agreement for a total wage package of 3.5% for 2007-2008. However, the settlements for health coverage differ widely. The Police three year agreement has a dependent care rate of 2.35% of total costs, or \$24.32 a month for 06-07, a 4.65 % of total costs rate for 2007-2008 and a 4.85% rate for 2008-2009, the third year of the contract. The Parks/Public Works

¹⁰ See, for example, City of Cedar Falls and Teamsters Local 238 (Police unit), Lisa Salkovitz Kohn, Arbitrator (1999).

¹¹ The unrepresented employees serve at the pleasure of management and do not have any contractual commitment for any period of time.

union settled their three year contract with a rate of .99% of total costs for the first year (\$10.28 per month), 1.95% for the second year and 2.03% for the third year. Diagramed, the three year contracts look this way:

Police	Wages	Dependent Care
2006-2007	3.25%	2.35% of total costs
2007-2008	3.50%	4.65%
2008-2009	3.75%	4.85%
Parks/Public Works		
2006-2007	3.25%	.99%
2007-2008	3.50%	1.95%
2008-2009	3.75%	2.03%
Fire		
2006-2007	3.25%	2.35%
2007-2008	3.50% (TA)	2.35% (U) 4.65% (C)
2008-2009	Unknown	Unknown

The City's comparability argument is weak because only the Police are involved. The Police and Fire employees make up a small percentage of the total number of employees covered by the health plan. Statistically, these two groups have minimal impact on the health of the plan. The real problem for the City is that if it settles for the Fire Association's dependent care proposal it will look to the Police as if Fire got a better deal. But this is not the case because the Police settled for locked up rates over a three year period. Had the increase in costs been greater than 4.65% (an unfortunate choice of number by Gallagher which was supposedly unknown at the time the Police settled their contract in 2006) the City

might have been seeking more than 4.65% share of the total costs from Fire.¹² Police would have had a better deal. Indeed, the Police's best position is for next year. Their rate will go up .2% (2/10ths of a percent) whereas the Fire is exposed to a larger demand by the City. Beyond that, for a small bargaining unit the costs of impasse proceedings are very expensive. The Police union has avoided these expenses for three years. The Fire Association has not.

Clearly to this fact finder there is little merit in the City's proposal. Costs for employees must be carefully watched because the only dependent health care plan, the old Plan B, can be quite costly for employees who need to use medical services for their families. In this context, Cedar Falls' plan is less attractive than those of the comparables. However, moving on from the theoretical assessment of what makes a good plan, the realities in this case are that the Cedar Falls plan is more than adequately funded.

RECOMMENDATIONS

There should be no increase in family premium formula.

There should be no change in single coverage.

Respectfully submitted,



HARVEY A. NATHAN

February 12, 2007

¹² Of course one might speculate that if Gallagher's number was much greater than 4.65% the City would not have used the same formula because increasing the Fire employees' share to a percentage mirroring the total percentage increase might have resulted in a proposed percentage increase too steep to be taken seriously

CERTIFICATE OF SERVICE

I certify that on the 12th day of May, 2004, I served the foregoing Fact Finder Report upon each of the parties to this matter by mailing a copy to them at their respective addresses as shown below:

Ms. Susan Bernau Staudt
Assistant City Attorney
220 Clay Street
Cedar Falls, Iowa 50613

Mr. Scott K. Dix
Cedar Falls Local 1366
1215 West 1st Street
Cedar Falls, IA 50613

I further certify that on the 12th day of February, 2006, I submitted a copy of this Fact Finder Report for filing by mailing it to the Iowa Public Employment Relations Board, 510 East 12th Street, Suite 1B, Des Moines, IA 50319-0203.



Harvey A. Nathan, Fact Finder